SRI KRISHNA ARTS AND SCIENCE COLLEGE

COIMBATORE

CORPORATE ACCOUNTING

FIRM UNDERWRITING - ACTIVITY PROBLEMS

1. M Ltd has authorized capital of Rs.50,00,000 divided into 1,00,000 equity shares of Rs.50 each. The company issued for subscription 50000 shares at a premium of Rs.10 each. The entire issue was underwritten as follows:
   A – 30000 shares (firm underwriting – 5000 shares)
   B – 15000 shares (firm underwriting – 2000 shares)
   C – 5000 shares (firm underwriting – 500 shares)
   Out of the total issue, 45000 shares including firm underwriting were subscribed.
   The following were the marked forms: A – 16000 shares; B – 10000 shares; C- 4000 shares.
   Calculate the liability of each underwriter.

2. Janta Ltd. Issued 40000 shares which were underwritten as : A – 24000 shares; B – 10000 shares; and C – 6000 shares. The underwriters made applications for firm underwriting as under: A – 3200 shares; B – 1200 shares; and C – 4000 shares. The total subscription excluding firm underwriting but including marked application was for 20000 shares. The marked applications were as: A – 4000 shares; B – 8000 shares; and C – 2000 shares. Show the allocation of liability of underwriters.

3. Swiss ltd. Issued 40000 equity shares of Rs.10 each at par. The entire issue was underwritten as follows: A – 24000 shares (firm underwriting 3200 shares); B – 10000 shares (firm underwriting 4000 shares); and C – 6000 shares (firm underwriting 1200 shares). The total applications including firm underwriting were for 28400 shares. The marked applications were as under: A – 7200 shares; B – 9000 shares; C – 3200 shares. The underwriting contract provides that credit for unmarked applications be given

to the underwriters in proportions to the shares underwritten. Determine the liability of each underwriter and the amount of commission payable to them assuming it is the maximum allowed by law.

4. X Co. Ltd. Was formed with a capital of Rs.10,00,000 in Rs.10 shares, the whole amount being issued to the public. The underwriting of these shares was as follows:
M – 35000 shares; N – 30000 shares; O – 20000 shares; P – 10000 shares; Q – 3000 shares; and R – 2000 shares. All the marked application forms were to go in relief of the underwriters whose names they carried. The application forms marked by the underwriters were: M – 10000; N – 22500; O – 20000; P – 7500; Q – 5000; and R – Nil. Applications for 20000 shares were received on forms not marked. Draw up a statement showing the number of shares each underwriter had to take up.

5. CTF Ltd. issued 10,000 shares of Rs.100 each at a premium of Rs.20 per share. The entire issue was underwritten as follows:

C – 5,000 shares (firm underwriting 1,000 shares)

T – 3,000 shares (firm underwriting 500 shares)

F – 2,000 shares (firm underwriting 500 shares)

Shares applied for were 9,000, the following being the marked forms including firm underwriting.

C – 3,500 shares; T – 1,400 shares; F – 1,600 shares.

Money payable was as follows: On application Rs.30; On allotment (including premium) Rs.50; balance on call, which was duly made and all allottees including the underwriters paid the money.

Calculate the liability of each underwriter and state the commission each will get, assuming it is the maximum allowed by

law. Also pass necessary journal entries recording the above transactions.